

1st March 2016

TMT

## Sopra Steria Group

Price EUR89.22

FY15 analysts' meeting feedback: the story cannot be summed up by a dividend cut

Fair Value EUR113 vs. EUR115 (+27%)

BUY

Bloomberg	SOP FP
Reuters	SOPR.PA
12-month High / Low (EUR)	112.0 / 68.9
Market Cap (EUR)	1,821
Ev (BG Estimates) (EUR)	2,358
Avg. 6m daily volume (000)	23.70
3y EPS CAGR	13.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.8%	-17.4%	-4.9%	-17.6%
Softw. & Comp.	-3.2%	-6.7%	9.7%	-5.5%
DJ Stoxx 600	-2.4%	-13.4%	-8.0%	-8.7%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	3,584	3,677	3,835	3,981
% change		2.6%	4.3%	3.8%
EBITDA	295	332	374	401
EBIT	152.6	241.7	280.8	307.2
% change		58.4%	16.2%	9.4%
Net income	150.9	175.1	202.6	218.7
% change		16.1%	15.7%	7.9%

	2015	2016e	2017e	2018e
Operating margin	6.8	7.7	8.4	8.8
Net margin	2.4	3.9	4.4	4.7
ROE	6.8	10.7	11.5	11.5
ROCE	11.0	10.7	11.9	12.9
Gearing	43.0	40.0	28.9	16.7

(€)	2015	2016e	2017e	2018e
EPS	7.38	8.55	9.89	10.67
% change	-	15.9%	15.7%	7.9%
P/E	12.1x	10.4x	9.0x	8.4x
FCF yield (%)	2.7%	2.9%	10.6%	13.4%
Dividends (€)	1.70	1.90	2.10	2.30
Div yield (%)	1.9%	2.1%	2.4%	2.6%
EV/Sales	0.7x	0.6x	0.6x	0.5x
EV/EBITDA	8.0x	7.1x	6.0x	5.2x
EV/EBIT	9.6x	8.4x	7.0x	6.0x



We are reiterating our Buy rating while cutting our DCF-derived Fair Value from EUR115 to EUR113 following the analysts' meeting held yesterday. Our change stems from the integration of Cassiopae into our model (+1% to our adj. EPS ests. = +EUR1/share) and new EUR/GBP assumptions (0.79 vs. 0.73, -EUR3). Lfl growth is expected to accelerate, synergies with Steria have been implemented faster than planned, and free cash flow is set to improve. While the share price fell 5% yesterday in view of a dividend cut to EUR1.70, these positive elements show that the momentum remains solid.

## ANALYSIS

- Positive trends ahead, despite Q1.** For Q1 2016, the company agrees with a scenario of around 0-1% lfl sales growth due to tough comps for Sopra Banking Software (La Banque Postale in Q1 2015), but sees an acceleration thereafter. In France, C&SI looks to start 2016 in good shape with growth ahead and the op. margin is likely to keep increasing, while the I2S business is likely to see a revenue decline in 2016 as a result of the refocus on value-added services but should return to growth over H2 and 2017 with the target to restore a 'normative' operating margin within two years. In the UK, lfl growth is set to stand at 0-2% with the commercial sector expected to improve efficiency, while the SSCL JV may see sales eroding - due to a quick ramp-up in 2015 - and grow again in 2017. In the "Other Europe" division, the trend should continue to reverse in Germany. For Sopra Banking Software, the goal is to keep investing heavily in R&D in order to keep up with customer demand, such that the operating margin is unlikely to deviate from 10% for 2016 and 2017. NB. Cassiopae (EUR50m revenues), to be acquired in Q2 16, generates a double-digit operating margin.
- Synergies targets reiterated for end 2016.** Sopra Steria delivered EUR45m in cost synergies in 2015, or EUR10m ahead of the EUR35m guidance announced in 2014, for implementation costs of EUR46m in line with the EUR45m initial target. That said, management confirmed its goal for synergies of EUR62m by end 2016 for a total cost of EUR65m. In other words, the synergies plan with Steria is not supposed to exceed expectations but synergies were unlocked faster than planned. Restructuring costs related to the integration of Steria should only total c. EUR10-15m in 2016. NB. The tax rate is likely to stand at 34-35% in the years ahead.
- Free cash flow to increase significantly but in line with expectations.** Free cash flow reached EUR49m in 2015, while the company guided for zero. In fact, WCR increased by 'only' EUR81.9m (vs. EUR150m guided in August) as the DSOs fell to 64 days. For 2016, reaching EUR100m looks to be a fair assumption as DSOs should continue to decrease, cash consumption of SSCL is expected to be at zero, and WCR is likely to increase in line with 2015, including a EUR30m drag from a change in the timing of social security payments in France (monthly vs. quarterly, 2/3 of the drag) and new regulations in the UK regarding payment terms to suppliers (1/3 of the drag).
- Medium-term ambitions unchanged.** Sopra Steria still backs its differentiating positioning and specific assets (solutions and customer intimacy), and reiterates its priority for vertical solutions and large accounts, while strengthening in consulting. It is also comfortable with its strategy on Sopra Banking Software, while banks are renovating their IT systems. With EUR1.1m in available credit lines and a net debt/EBITDA bank covenant of 3x (1.8x reached end 2015), Sopra Steria is keen on pursuing acquisitions, especially on the Sopra Banking Software side.

## VALUATION

- Sopra Steria's shares are trading at est. 8.4x 2016 and 7.0x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR530.8m (net gearing: 43%).

## NEXT CATALYSTS

Q1 16 sales on 3rd May before markets open.

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